

To: Carl E. Geffken, Managing Director

From: John B. Nagel, Director of Administrative Services

Date: August 19, 2011

Re: General Fund – Cash Flow Report – **July 31, 2011**

This report is due to the Managing Director, the Mayor and City Council each month. The Cash Flow Report is a work in progress. Specifically, as the staff becomes more familiar with the City's past accounting practices as well as the application of the 2011 budget, we will be revising these reports to include revenue and expense projections on a monthly basis for the remainder of 2011. The attached report is for the period January through December 2011. For the months of January through **July**, actual amounts are reported. For the remainder of 2011, **original estimated amounts** are reported. Monthly revenue trends follow the discount and full payment deadlines. Revenue and expense projections are also based on prior year trends. **Total year-to-date activity is the Actual Total column.** The narratives below highlight 2011 financial activity and compare 2010 and 2011 revenues and expenses.

***PFM and City staff continue to project a 2011 budget deficit in the \$4 to \$5 million range, due to unexpected revenue shortfalls as well as expenditures in excess of anticipated budgets. As a result, multiple Budget Appropriation Transfers currently totaling \$4,425,000 are recommended as of June 30, 2011 and are identified below:***

<b><i>Real Estate Transfer Taxes</i></b>	<b><i>\$750,000</i></b>
<b><i>State Pension Aid</i></b>	<b><i>\$375,000</i></b>
<b><i>Intergovernmental Revenue – RSD Resource Officers</i></b>	<b><i>\$100,000</i></b>
<b><i>Wages – Police &amp; Fire</i></b>	<b><i>\$1,450,000</i></b>
<b><i>OT – Police &amp; Fire</i></b>	<b><i>\$1,000,000</i></b>
<b><i>Operating Costs</i></b>	<b><i>\$250,000</i></b>
<b><i>Balance Sheet Accounts</i></b>	<b><i>\$500,000</i></b>
<b><i>Total</i></b>	<b><i>\$4,425,000</i></b>

### **Cash Balance - Beginning**

Cash balance carried forward from prior month.

<b><i>July 1, 2011</i></b>	<b><i>July 1, 2010</i></b>
\$11,813,963	\$6,005,897

### **Revenues**

**Real Estate Taxes** – The approved 2011 General Fund millage rate is 14.334 mills. Beginning in January 2011, the billing and collection of property taxes was transferred to Berks County. Discount (2%) payments are due by April, face (full) payments are due by June and taxes paid after July 1 are subject to a 10% penalty. County and City taxes are combined in one bill. County policy does not currently allow installment payments. (County officials are investigating the possibility of allowing installment payments as early as 2012.) Projections reflect the peak periods for discount and face collections as well as 2010 collection trends. The budget anticipates that 90% of residents and businesses will pay their current year's taxes. Real estate assessment appeals are expected to have had a significant impact, due to the recessed real estate market. ***After receiving transmittals of all of the discount period payments through the County of Berks, real estate tax revenues (88.0%) are slightly behind last year's pace (86.3%).*** The majority of activity has been transacted for 2011. At year-end, we expect the next significant amount of collections, prior to turning delinquencies over to the County. Serious consideration was given to accepting installment payments by the County. Unfortunately, County staff believes that collections have sustained, without the installment program.

<b>2011 YTD Actual</b>	<b>2011 YTD Budget</b>	<b>2011 YTD Actual to Budget (%)</b>	<b>2010 YTD Actual</b>	<b>2010 YTD Budget</b>	<b>2010 YTD Actual to Budget (%)</b>
\$16,692,132	\$18,966,209	88.0%	\$14,471,131	\$16,771,240	86.3%

**Earned Income Taxes (EIT)** – The City has multiple rates for the EIT. The current City share of the resident EIT is 2.1%. The current City rate for non residents is 1.3% (1% remits to employee's home municipality; 0.3% benefits the City. ) Beginning in January 2011, the City outsourced its EIT collection (employers and individuals) to Berks EIT Bureau. This Bureau transmits funds to the City on a monthly basis. The Bureau reported that June remittances would be significantly higher, due to the concurrent deadlines for federal and state individual returns (April 30 deadline for employers, processed by the Bureau in May and remitted to the City in June). There is approximately \$318,000 in the Earned Income Tax Fund on the City's books. As funds due to other municipalities for current and prior years will be paid by the Bureau, it is unlikely that these funds will be needed and will eventually be recommended for transfer into the General Fund. ***Total collections are now \$5,807,253 or 49.2% of budget. We will continue to closely monitor EIT revenues through the remainder of 2011. PFM and City staff met with Rick Weisser from the Bureau in August as part of this monitoring effort.***

Act 32 is attempting to require more frequent payments by taxpayers to the respective County Tax Collection Committee (TCC) collector. If taxpayers (e.g., Walmart) desire to electronically remit and file to one central tax collector in PA, then monthly filings and payments are required. Under this scenario, unless taxpayers choose Berks EIT Bureau as their PA collector, there will be a month delay for the filings and the payments to reach Berks EIT and then to the City. The Bureau has a conservative belief that not many businesses will name one PA collector nor would it be the Bureau. In the meantime, monthly collections will be received from other EIT collection agencies and from past due accounts. The Act 32 rules for the Local Services Tax collections are the same as for EIT collections. Overall, taxpayer filings and payments will continue to evolve throughout 2011 and 2012 and possibly into 2013.

2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
\$5,807,253	\$11,797,117	49.2%	\$0	\$11,523,719	0.0%

**Business Privilege Taxes (BPT)** – The current City rates for the BPT are based on gross receipts. For each \$1,000, businesses pay either \$1.50 (retail), \$1 (wholesale) or \$2.25 (service, commission or rental). The BPT is shared with the School District. Discount (2%) payments are due by April 15 and full payments are due by June 15. Rates were frozen in 1988 by the Commonwealth and cannot be changed. The City continues to collect the BPT. ***During May, June and July (82.7%), we fell further behind last year's pace (97.2%). Staff is currently focusing on follow up for audits and prior years collections (\$51,837) actual of \$285,000 budgeted).***

2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
\$1,352,674	\$1,635,000	82.7%	\$1,432,302	\$1,472,833	97.2%

**Real Estate Transfer Taxes** – The City share of the transfer tax is 3.5%. Historically, transfers peak over the summer months due to residential resales. Commercial property transfers are more volatile, dependent on corporate and speculative transfers. Ultimately, staff will attempt to build a model that will identify a base amount of annual transfers. With an increased 2011 budget, we are significantly behind last year's pace. As we are in the peak transfer season, we will keep closely monitoring this activity. At this time, PFM and City staff are recommending a \$750,000 Budget Appropriation Transfer (reduction) as of June 30, 2011. ***Due to a delay in recording the July receipt (\$221,457), these taxes were not recorded in July revenue. Corrections were made in August. After corrections (43.7%), we continue to be significantly behind last year's pace (74.0%).***

2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
\$981,268	\$2,750,000	35.7%	\$1,851,295	\$2,500,000	74.0%

**Local Services Taxes (LST)** – The LST is assessed on each person with an occupation in the City. The City share of the LST is \$47. The School District share is \$5. Beginning in January 2011, the Bureau is collecting and remitting this tax. ***Due to our transition to Berks EIT Bureau, we are slightly behind last year's pace.***

2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
\$712,787	\$1,121,445	63.6%	\$668,964	\$945,000	70.8%

**Per Capita Tax** – The PCT is a tax on City residents who are at least 18 years old. The City share of the PCT is \$5 and the School District share is \$10. The City currently collects the tax. ***Staff is working to identify residents who are not currently paying the tax, particularly those in high rise rental units.***

2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
\$31,430	\$100,000	31.4%	\$60,005	\$91,000	65.9%

**Licenses, Permits & Fees** – Consists of housing and rental permit fees, franchise fees, traffic and court fines and other licenses, permits and fees.

- **Housing & Rental Permit Fees** – The City annually bills owners and tenants for housing and rental permits. As the City was previously late with these billings, we actually collected (in whole or in part) fees for 2008 through 2010 in 2010. Staff has been meeting to determine when 2011 permits should be billed and collected. Our current plan is that these billings will be mailed in September 2011 and collected in November 2011. A notice will be included with the 2011 bills that the 2012 bills will be mailed during 1Q2012 and due in April 2012. In subsequent years, the billing will follow the same pattern. ***In spite the delay, we are slightly ahead (51.7%) of last year's pace (50.7%). Maximus is nearing completion of its analysis of the permit and inspection process to recommend an appropriate fee for both. We expect this recommendation by August 31.***
- **Franchise Fees** – The City has on cable franchise agreement with Comcast. Franchise agreement fee (5%) payments are made quarterly.
- **Traffic & Court Fines** – Received monthly from the District Court system.
- **Other Licenses, Permits & Fees** – This category includes business privilege licenses, zoning fees, fire prevention permits and other fees.

2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
\$2,951,296	\$5,710,113	51.7%	\$3,013,497	\$5,947,671	50.7%

**Intergovernmental** – This is primarily comprised of state pension contributions and meter surcharges.

- Pension – State Aid offsets a portion of the City contribution to the Police, Fire and O&E pension plans. The amount of state aid is dependent on the total amount of state funds available and the number of active employees in pension funds statewide. We are eligible for each full time employee who has worked for the City for a minimum of six months in the prior year. State Aid is received every October. In 2010, State Aid for pension was better than anticipated (\$2,972,820 vs. \$2.7 million, or 10%). State Aid unit value increased from \$3,128 to \$3,234 and the City qualified for more units from 909 to 919. The staff prepared the State Aid reports for 2011 and found that the City qualified for 801 units (118 less), or \$381,612 less than projected in State Aid. **At this time, PFM and City staff are recommending a \$375,000 Budget Appropriation Transfer (reduction) as of June 30, 2011.**
- Meter (Water) Surcharges – First enacted in 2005, the surcharge is currently \$5.32 per resident, per month. The City collects this surcharge as a direct subsidy.
- Other – This category is comprised mostly of:
  - Additional Lease Financing Fee (\$1.5 million) paid by RAWA to the City.
  - Reading Public Library (\$800,875)
- Indirect Cost Reimbursement – Sewer, Water, Recycling, Community Development & Code (\$2,377,000). **The Reading School District is considering reducing the payment to the City for School Resource Officers. At this time, PFM and City staff are recommending a \$100,000 Budget Appropriation Transfer (reduction) as of June 30, 2011.**

2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
\$3,662,348	\$9,572,175	38.3%	\$2,111,074	\$7,296,920	28.9%

### **Charges for Services**

- Admissions – The City receives admissions taxes (5%) from the Sovereign Center (minor league hockey) and FirstEnergy Stadium (minor league baseball) during the respective seasons. **We are significantly ahead of last year's pace and expect to meet or exceed projections, as a result of the baseball season. Due to a delay in recording the July receipt (\$36,041), however, these taxes were not recorded in July revenue. Corrections were made in August.**
- User Fees – The City receives fees for providing Emergency Medical Services to the public.

2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
\$2,378,238	\$4,351,811	54.7%	\$2,299,412	\$4,300,911	53.5%

***Interest & Rent – 2011 revenue primarily represents a one-time payment from the Reading Redevelopment Authority (\$2.9 million).***

2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
\$4,385,066	\$4,470,200	98.1%	\$865,379	\$1,107,250	78.2%

#### ***Other Revenues***

2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
\$1,241,490	\$4,299,700	28.9%	\$1,023,370	\$5,113,516	20.0%

#### **Expenditures**

***Wages and Salaries*** – Personnel includes wages and salaries for full time, part time and seasonal employees. The 2011 budget includes 639 full time employees. Personnel expenses remain relatively flat on a month-to-month basis. The most significant change occurred in Community Development as the Property Maintenance Division was transferred from the Police Department. *(Note: City accounting practices until 2011 included using Vouchers Payable instead of Cash for wage and salary transactions. These practices preclude the staff from accurately reporting 2010 wage and salary activity.)* ***As these wage and salary expenses represent 58% of our annual budget to date, we are slightly behind (55.2%) of last year's pace (56.1%). The Managing Director and the respective Department Heads are cautiously working towards filling vacancies, balancing levels of service with budget constraints. We are currently at 94.1% of our budgeted capacity (adjusted for RAWA transfers). At this time, PFM and City staff are recommending a \$1,450,000 Budget Appropriation Transfer (increase) for Police and Fire as of June 30, 2011.***

Department	2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
<i>Police</i>	\$8,214,748	\$14,744,112	55.7%	\$9,032,681	\$15,335,997	58.9%
<i>Fire</i>	\$4,256,428	\$7,856,234	54.2%	\$4,764,205	\$9,265,981	51.4%
<i>Public Works</i>	\$955,842	\$1,825,060	52.4%	\$1,017,771	\$1,834,231	55.5%
<i>Administration</i>	\$1,229,640	\$1,963,845	62.6%	\$1,260,202	\$2,962,515	42.5%
<i>Community Development</i>	\$864,171	\$1,665,128	51.9%	\$351,474	\$558,929	62.9%
<i>Other</i>	\$666,918	\$604,016	110.4%	\$731,148	\$623,657	117.2%
<i>Total</i>	\$16,187,748	\$29,324,977	55.2%	\$17,157,481	\$30,581,310	56.1%

Full Time Employees – Act 47 requires the City to monitor and report changes in workforce each month. This chart indicates the employment trends among full time City employees.

<b>Department</b>	<b>FT – 7/31/2011</b>	<b>FT – 12/31/2010</b>	<b>Change (#)</b>	<b>Change (%)</b>
Police	195	208	-13	-6.3
Fire	125	131	-6	-4.6
Public Works	105	112	-7	-6.3
Administration	68	69	-1	-1.5
Community Development	42	17	+25	+247.1
<b>Subtotal</b>	<b>527</b>	<b>537</b>	<b>-10</b>	<b>-1.9</b>
RAWA	10	56	-46	-82.1
Library	10	10	0	0
Transfer	46	0	N/A	N/A
<b>Total</b>	<b>601</b>	<b>603</b>	<b>-2</b>	<b>-0.3</b>
<b>Budgeted</b>	<b>639</b>	<b>661</b>	<b>-22</b>	<b>-3.3</b>
<b>Filled</b>	<b>601</b>	<b>603</b>	<b>-48</b>	<b>-8.0</b>
<b>Filled to Budgeted (%)</b>	<b>94.1%</b>	<b>91.2%</b>	<b>N/A</b>	<b>N/A</b>

**Overtime** – This chart monitors the overtime expenses for the departments with significant overtime costs. Public Financial Management is investigating the trends in overtime expenses in the respective departments. **Overtime for both Police and Fire Departments is trending to go significantly overbudget.** However, with the recent arbitration settlement, structural changes have been made to department scheduling starting in April, which should significantly reduce overtime throughout the remainder of the year. Staff budget meetings continue each month, during which revised overtime projections and corrective actions will be determined. **At this time, PFM and City staff are recommending a \$1,000,000 (\$500,000 each to Police and Fire) Budget Appropriation Transfer (increase) as of June 30, 2011.**

<b>Department</b>	<b>2011 YTD Actual</b>	<b>2011 YTD Budget</b>	<b>2011 YTD Actual to Budget (%)</b>	<b>2010 YTD Actual</b>	<b>2010 YTD Budget</b>	<b>2010 YTD Actual to Budget (%)</b>
Police	\$933,535	\$1,174,860	79.5%	\$671,196	\$1,151,116	58.3%
Fire	\$987,200	\$981,500	100.6%	\$1,083,967	\$787,150	137.7%
Public Works	\$21,168	\$75,000	28.2%	\$41,122	\$76,700	53.6%

**Pension (MMO)** – The State requires the City to make a Minimum Municipal Obligation (MMO) payment to each of the City’s three defined benefit plans. The MMO is determined from an actuarial valuation by the respective actuary for each plan. The State requires that the MMO calculation be completed by the actuary by September 30 of each year and incorporated into the next year’s budget. The State also requires that the City make the MMO payment to each plan by December 31 of each year. The practice of the City is to pay the three MMOs in December. The PA Auditor General has issued audit reports for all three pension plans for 2007 and 2008. In both years, the City underfunded its MMO. This funding was significantly corrected in December 2010 with the unfunded debt proceeds. The City still owes all three plans accrued interest on these funds for a total of \$781,738, at the assumed rate of return (7.5% or 8%). Additionally, the City overestimated its eligibility for State Aid in both years. The total amount of the overpayment of State Aid is \$389,641. As a result, the City is obligated to pay back the State Aid plus interest (current estimate is \$96,949, based on actual investment gains or losses). The total value of the audit findings is currently estimated at \$1,268,328, payable from the General Fund. ***The Managing Director, the Mayor and the PA Auditor General are currently negotiating a payment schedule for the funds owed. As a result of these findings, the staff recommends postponing the payments of the 2011 MMO until later this year as well as postponing a Budget Appropriation Transfer until a clear resolution of this matter is determined.***

Plan	2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
Police	\$0	\$4,039,001	0.0%	\$0	\$2,100,386	0.0%
Fire	\$0	\$1,984,974	0.0%	\$0	\$1,277,395	0.0%
Employees & Officers	\$0	\$581,478	0.0%	\$0	\$336,060	0.0%
Total	\$0	\$6,605,453	0.0%	\$0	\$3,713,841	0.0%

**Fringe Benefits** – Benefits include Social Security, Medicare, health care, dental, prescription, vision and unemployment compensation expenses. As mentioned earlier in this document, the City historically has recorded these expenses in Vouchers Payable, so the accuracy of this activity cannot be fully confirmed. ***Our pace (35.0%) is significantly behind last year (59.4%). Research has found that Fringe Benefit costs are currently distributed to each department on a quarterly basis. Beginning in July, this distribution will occur monthly. At that point, we will have a better idea of any material budget variances.***

2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
\$3,481,929	\$9,961,593	35.0%	\$4,959,444	\$8,344,405	59.4%



**Debt Service** – Interest and principal payments are primarily made in May and November of each year.

2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
\$2,534,467	\$11,718,145	21.6%	\$2,792,089	\$6,996,350	39.9%

**Operating Costs** – The City follows a rigorous requisition and procurement process for spending its operating costs. Operating costs do fluctuate for month to month due to the various spending patterns by each of the departments. City Administration is developing best management practices to better centralize and plan its critical spending to maximize cash flow while meeting departmental needs. **As these operating expenses represent 58% of our annual budget to date, we are slightly behind (56.0%) budget and noticeably behind last year's pace (60.4%). During June and July, staff continued to identify and discuss budget variances. For variances exceeding \$10,000, Budget Appropriation Transfers will be identified and recommended to City Council. At this time, PFM and City staff are recommending a \$250,000 Budget Appropriation Transfer (increase) as of June 30, 2011. These are primarily due to energy industry costs (gas, diesel, natural gas and electric).**

2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
\$4,920,685	\$8,788,909	56.0%	\$4,331,462	\$7,171,173	60.4%

### **Interfund Transfers**

#### **Transfers In**

- From Sewer (\$3 million) – The consent decree of November 2005 restricts the amount of annual transfers from the Sewer Fund to the General Fund. **The entire transfer will occur in August.**
- From RAWA (\$4,220,000) – Annual financing fee payment from the water system. **The first in a series of monthly transfers is scheduled to begin in August.**

2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
\$2,461,667	\$7,222,500	39.7%	\$0	\$3,000,000	0.0%

#### **Transfers Out**

- Self Insurance (\$1,702,435) – Transfers used to reimburse Self Insurance Fund for property, liability and workers compensation claims as well as administrative costs. ***The first in a series of monthly transfers is scheduled to begin in August.***

2011 YTD Actual	2011 YTD Budget	2011 YTD Actual to Budget (%)	2010 YTD Actual	2010 YTD Budget	2010 YTD Actual to Budget (%)
\$0	\$1,072,435	0.0%	\$993,088	\$1,072,435	58.3%

#### **Net Balance Sheet Activity**

Cash transactions for Balance Sheet accounts affect the Cash Flow Report. We disclose these totals as Net Balance Sheet Activity. Significant transactions will be disclosed. For February 2011, Liquid Fuels Fund repaid General Fund \$810,103 for a prior loan. ***At this time, PFM and City staff are recommending a \$500,000 Budget Appropriation Transfer (increase) as of June 30, 2011. This is primarily the result of outstanding Due To and Due From Account balances.***

#### **Cash Balance - Ending**

Cash balance remaining at end of month and recorded on General Ledger. ***At this time, staff projects healthy cash balances to be maintained between August and September 2011. Unfortunately, staff projections currently anticipate cash balances to drop below acceptable levels in the fourth quarter of 2011 (November – [\$2,830,072]; December – [\$5,855,232]). As we begin October, we will start monitoring cash balances on a more frequent basis and recommend corrective action, if necessary.***

<b><i>July 31, 2011</i></b>	<b><i>July 31, 2010</i></b>
\$11,267,129	\$4,994,069